I ANNOUNCEMENTS AND REPORTS

A. Meetings, Seminars and Personnel Actions

Region IX Unemployment Insurance Research Seminar

Region IX held an unemployment insurance research seminar on September 6 - 7, 1979, in San Francisco. The meeting was chaired by Walter Postle, Regional Economist. The purpose of the meeting was to review the research programs of Arizona, California, Hawaii, and Nevada; to discuss ways of encouraging support and cooperation for State UI research; and to arrive at a mutual agreement as to what core products should be required of a State UI research unit (the minimum products expected of an adequate State UI research unit). Current research sponsored by the national office and national office program emphasis were also discussed.

Participants in the seminar were as follows:

Region IX	Walter Postle Albert Chiu Elaine Tom Sheryl Greenberg
Arizona	Robert St Louis
California	Dan Walls Allen Frazier
Hawaii	Tommy Mark
Nevada	Jim Hanna Tom Hills
National Office	John Robinson

Quantitative Methods Seminar

A quantitative methods seminar for State UI researchers, sponsored by the national office and the Arizona agency, was held in Phoenix the week of September 10 - 14, 1979. Classroom and workshop instruction in the techniques of regression and time-series analysis was provided by Rex Cottle, Clemson University; Ronald Oaxaca, University of Arizona; Robert St. Louis, Arizona agency, and James Van Erden, national office. Attending the seminar from the State agencies were:

Region I:	Rena Kotcamp, Massachusetts Tom Allen, Maine
Region II:	Roger Gerby, New York Vivian Shapiro, New Jersey
Region III:	Paul Cope, Pennsylvania John Nies, Maryland
Region IV:	Sherryl Edge, Georgia Doug Potter, South Carolina
Region V:	Tom West, Michigan
Region VI:	Pat Fuselier, Louisiana Daniel Conti, New Mexico
Region VII:	Steve Kadolph, Iowa Bill Niblack, Missouri
Region VIII:	Ward Stiles, Montana Bill Horner, Utah
Region IX:	Allen Frazier, California Bob Butler, Nevada Zena Webber, Arizona Richard Porterfield, Arizona Joe Sloan, Arizona Joe Anderson, Arizona Joan Young, Arizona
Region X:	Jerry Fackrell, Idaho Sharon Kelly, Washington

In addition, Howard Andreason of Region VII office, as well as Paul Mackin, Helen Manheimer, John Robinson, and Steve Wandner of the national office, attended.

Benefit Financing Seminar

During the week of November 5-9 the National Office staff of the Division of Actuarial Services held a seminar on Unemployment Insurance Benefit Financing and cost estimating at the Breech Academy in Kansas City. This was similar to ones held 1976, 77 and 78.

The week of concentrated activity included such matters as cost and workload estimating, revenue and benefit financing, experience rating, tax rate schedules, taxable wage base, trust fund adequacy, and forecasting and econometric models. In addition, there were evening lab sessions and time allotted for individual consultations on State financing problems. Mike Roming of the National Chamber of Commerce presented the employer view toward financing the system.

The seminar was attended by 22 State participants and 2 regional office participants. Selection was limited to one per State or region and was based on fiscal condition of trust funds, qualification of nominees and attendance at previous seminars. It is planned to continue to hold one of these seminars each fiscal year.

NATIONAL COMMISSION ON UNEMPLOYMENT COMPENSATION

SCHEDULE OF REMAINING MEETING DATES AND PLACES

March 27-29, 1980
Oklahoma City, Oklahoma

April 17-19, 1980
Austin, Texas

May 15-17, 1980
Austin, Texas

June 12-14, 1980
Chicago, Illinois

June 28-30, 1980
Austin, Texas

July 25, 1980
Washington, D.C.

States to be Visited by UIS Actuarial Division Staff
During FY 1980 and Quarter of Visit

The following schedule represents tentative plans for visits to SESA's concerning trust fund adequacy. This is a follow on to FY 1979 visits to provide technical assistance to States and work with the agencies in providing a plan to achieve financial solvency/adequacy in a reasonable time.

January - March Quarter

State

Delaware

New Jersey

Puerto Rico

Vermont

Virgin Islands

Virginia

West Virginia

NY

April - June Quarter

Arkansas

Florida

Illinois

Pennsylvania

Wisconsin

Ala

Mont

NATIONAL OFFICE PERSONNEL ACTIONS

During the period from October 1978 to October 1980 Roger Rossi is on an IPA assignment to the Virgin Islands Employment Security Agency. John Robinson is the Acting Chief of the Division of Research Services during this period. Carolyn Sperber is currently on an IPA assignment to the New York Department of Labor.

CWBH has moved into a new phase of operations. Mr. Curt Harding has returned to Utah to work on CWBH on a part time basis. Curt will coordinate the development of Record Type Ø (automation of required reporting), and assist States, through the University of Utah, with selection of Sample Sites.

Pat Skees is now the CWBH coordinator and chairman of the National Workgroup.

The project has acquired contract EDP staff to replace the UISDC in Louisiana. The contractor is Genasys which is providing six staff members.

Tony Baglio -- CWBH Task Manager
John McRae — CWBH Systems Analyst
Dottie Ewing -- CWBH Database Systems Analyst
Bill Chertack -- CWBH Programmer
Sabrina Dotson -- CWBH Librarian
Vacant -- CWBH Record Type Ø Systems Analyst

These people are responsible for creation, maintenance and support of The CWBH National Database.

CWBH has also contracted with Boeing Computer Services to provide the national office and States with hardware, software and network support for access to the National CWBH Database. Boeing will allow States as well as national users access to the Database 24 hours a day through the BCS network. A Data Set DOLO 18. CWBH News provides users with information regarding availability of States and formats of selected data.

B. Recent Legislative and Financing Developments

Change of Trigger Rate Calculations for the Extended Benefit Program

Summary of Change

The Department of Labor's regulations on Extended Benefits have been amended to revise the method of computing national and State "on" and "off" indicators for Extended Benefit Periods. The regulation has been amended so as to eliminate weeks claimed for Federal-State Extended Benefits and State additional benefits from the computation of the indicators.

Background

Public Law 91-373, enacted in 1970, created a permanent program of Federal-State extended benefits available when individuals exhaust their regular unemployment benefits during periods of high unemployment. Under this program benefits become payable on the basis of either a "National" or "State" trigger based on the "rate of insured unemployment (IUR)" within the Nation or a given State. When implementing this provision of the law in 1970, the Employment and Training Administration concluded that the calculation of the "rate of insured unemployment" should include not only claims for regular unemployment benefits but also claims for extended benefits. At the time this decision was made, there was no historical precedent to look to for guidance, and there was insufficient consideration given to the impact it would have on varying States under essentially similar conditions.

The trigger rates for the program (which are computed as a 13-week moving average) are as follows:

National trigger - 4.5 percent IUR, seasonally adjusted.

State trigger - 4.0 percent IUR, unadjusted and 20 percent higher than the average of the previous 2 years

or

5.0 percent IUR, without the 20 percent higher criteria if the States have so provided in their State legislation. A total of 38 States have waived the 20 percent higher criteria in their legislation.

Impact of Change for Fiscal Year 1980

Utilizing the Administration's latest official (1981 Presidental Budget) economic assumptions for FY 1980, which assumed a total unemployment rate averaging 6.65 percent and the IUR averaging 3.7 percent, we project that the proposed change would reduce outlays by $224.8 million. The following reflects the economic assumptions and projected costs for FY 1980:

	Unemployment rate		EB costs (millions)	
	Total	Insured	Includes EB	Excludes EB
FY 1980	6.65	3.7	$1,446.7	$1,221.9

Arguments for the Change

1. The inclusion of EB claims in the trigger rate calculation, after an EB period begins, results in a different measure of economic hardship being used for beginning the EB period than for ending it.

2. Inequities may occur among States in that two States with similar IUR's may find one State paying EB while the other is not.

   The inequities may occur because:

   a. In the first State, its IUR reaches the critical value and declines, but the State continues to pay EB because the inclusion of EB claims keeps the new IUR above the critical value, whereas the second State which fell just short of the critical value pays no EB at all.

   b. A State with an IUR greater than 4 percent may be unable to satisfy the criterion of being 20 percent above the average rate for the prior 2 years due to the count of EB claims in the prior period, whereas a State with an identical IUR without prior EB claims may be able to satisfy the 20 percent rule and pay EB.

3. High unemployment in a few large States which pay EB due to their State triggers may cause the program to trigger on nationally when unemployment is low in other States.

4. The present calculation tends to keep the EB period in place well into a recovery period when the need is less appropriate.

5. The change would reduce overall EB outlays from both State and Federal trust funds. This would, in turn, reduce payroll taxes which are considered inflationary.

6. The change at this time will have no immediate impact on any State. The three States currently paying EB (Alaska, Puerto Rico and Michigan) will remain triggered on.

Arguments Against the Change

1. The change would result in a reduction in the length of an EB period. This, in turn, would result in fewer claimants receiving EB. Some claimants would receive no EB while others would have a reduction in the duration of their EB.

2. The reduction in the extent of the EB period would, in most cases, reduce the level of outlays in a recessionary period, thereby reducing the macroeconomic impact of UI benefits on overall economic activity.

3. Some measure of exhaustees from the regular program should be included in the determination of the need for EB. While the present calculation does not meet the entire goal, it does move in that direction.

Effective Date of Change

The proposed change was published in the Federal Register on June 15, 1979, for comments until August 14, 1979. The change was published in final in the January 3, 1980, Federal Register to take effect February 3, 1980, with respect to computation of insured unemployment rates on and after that date.

PENSION DEDUCTION PROVISION

Public Law 94-566, the Unemployment Compensation Amendments of 1976, added a requirement to section 3304(a)(15) of the Federal Unemployment Tax Act (FUTA) that States reduce an individual's weekly benefit amount by the amount, prorated weekly, of any "...pension, retirement or retired pay, annuity, or any other similar periodic payment which is based on the previous work of such individual...." This requirement will become effective on andafter April 1, 1980, in the absence of additional Congressional action. Two bills are currently being considered in Congress that would amend this provision to give the States two options: (1) a State could limit the deduction only to pensions based on service with a base-period employer and (2) the State could take into account, in making the deduction, employee contributions to the pension, retirement or retired pay, annuity or other similar period payment. Both bills that would amend section 3304(a)(15) of FUTA, H.R. 5507, reported out of the House Ways and Means Committee, and H.R. 4612, reported out of the Senate Finance Committee, are awaiting floor action. While the bills contain identical language to amend the pension deduction provision, the Senate bill includes many additional amendments not found in the House bill. Because of the differences between the two bills, and the approach of April 1, 1980, it is impossible to accurately predict what action, if any, Congress will take in this matter.

H.R. 4007, introduced by Congressman Brodhead of Michigan, passed the House on November 7, 1979, and has been referred to the Senate Committee on Finance. The bill would permit States with outstanding Federal loans to avoid automatic increases in the Federal portion of the tax by either repaying the full outstanding amount of the loan, as permitted under current law, or repaying the amount that would have been collected during the year if the increase in the Federal tax had taken place.

Bills involving the tax treatment of employees and independent contractors received Congressional attention this year, although final action in the 96th Congress seems remote. The purpose of all of the bills introduced was to clarify the standards used for determining whether, for Federal income tax withholding, social security and unemployment tax purposes, an individual is an independent contractor or an employee. These bills would tend to exempt services, which are now covered under State unemployment insurance laws, as being performed by independent contractors. The bills would redefine the term "employee" so that a series of tests would determine the status of an individual, i.e., whether the individual is an employee or an independent contractor, and almost any individual paid on a piecework or commission basis would be considered an independent contractor.

DECISIONS ON STATE CONFORMITY TO FEDERAL REQUIREMENTS

Secretary Marshall issued decisions Oct. 31 affecting seven states' certification for credits against the federal unemployment tax. Four of the states were denied certification at this time.

As a result of the Secretary's action, Alabama, Nevada, New Hampshire, and Pennsylvania were not certified by the Secretary for the 12-month period ending Oct. 31, 1979. This lack of certification will, when it becomes effective, result in employers in those states losing their credits of up to 2.7 percent of the federal unemployment tax which is currently 3.4 percent of the first $6,000 paid to a worker per year.

The federal unemployment tax is imposed on employers in part to finance the administrative costs of operating state unemployment insurance programs. Employers get a tax break in the form of a credit against the tax if they are covered under a state unemployment insurance law that meets certain minimum standards established in the Social Security Act and the Internal Revenue Code of 1954. The effect of noncertification means employers in an affected state will lose all or part of the credit they are ordinarily entitled to.

Certifications are made on Oct. 31 of each year under sections 3303 and 3304 of the Internal Revenue Code of 1954 to inform states of employers' eligibility for credits against their federal unemployment tax liability.

Here are the decisions affecting the seven states. The Secretary ruled:

- In favor of Delaware, New Jersey, and New York on the question of whether the states may relieve employers of unemployment benefit liability under specified conditions when those employers have chosen the reimbursement method of financing benefit costs attributable to work in their employ.

- That Alabama and Nevada failed to cover church-related elementary and secondary schools for unemployment compensation purposes as required by federal law.

- That Pennsylvania violated certain federal law requirements regarding denial of benefits between school years and during school vacation periods.

- That New Hampshire failed to cover for unemployment compensation purposes all of the types of employees who performed work for governmental entities and nonprofit organizations as required by the federal law. The state also failed to provide adequate financing for unemployment compensation for which those entities are liable.

The Secretary's action to withhold certification cannot become effective for up to 60 days after the Governor of each of those states has been notified of the Secretary's decision. The states are allowed by the federal law to appeal the decisions during the 60-day period to a U. S. Court of Appeals.

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Update on above article

In December 1979, Alabama, Nevada, and New Hampshire appealed The Secretary's decisions adverse to them. The Secretary's action to withhold certification for the 12-month period at issue is under a Court imposed stay. The State of Pennsylvania in December 1979, amended its unemployment compensation law to correct the non-conforming provisions and the State agency took action retroactively to bring the State into substantial compliance with the Federal law provisions involved. Pennsylvania was, accordingly, certified by The Secretary on December 26, 1979, for the 12-month period ending October 31, 1979.

Loan Status as of December 31, 1979

The Federal unemployment account in the Unemployment Trust Fund has provided a total of $5.6 billion in loans to 25 States which exhausted their unemployment fund reserves over the past several years. These loans are interest free and must be repaid within 2 years to avoid additional employer tax liability. Since 1975 most States have avoided the tax increase by meeting certain criteria aimed at restoring solvency to their funds. This has resulted in full repayment by 12 States and partial repayment by 8 other States. By January 1, 1980, the amount of loans outstanding was reduced to $3.8 billion owed by 13 States; Connecticut, Delaware, District of Columbia, Illinois, Maine, Massachusetts, Montana, New Jersey, Pennsylvania, Puerto Rico, Rhode Island, Vermont, and the Virgin Islands.

During 1979 Alabama, Arkansas, Minnesota, and New York would have been included in the above list but they made full repayment prior to the November 10 deadline and were therefore not subject to the tax increase. Michigan, which did have an outstanding loan balance on November 10, made full repayment in December. However, the recent surge in unemployment has caused Michigan to require new loans in 1980.

States with Outstanding Title XII Loan Balances as of December 31, 1979

12/75	Alabama	0
1/76	Arkansas	0
3/72	Connecticut	370,897,307.31*
11/75	Delaware	47,000,000.00
11/75	District of Columbia	70,544,082.94*
4/76	Florida	0
1/76	Hawaii	0
12/75	Illinois	946,500,000.00
9/75	Maine	36,400,000.00
3/76	Maryland	0
4/75	Massachusetts	231,700,000.00
4/75	Michigan	0
7/75	Minnesota	0
4/76	Montana	7,084,089.00
1/76	Nevada	0
1/75	New Jersey	651,928,000.00
2/77	New York	0
3/77	Ohio	0
2/76	Oregon	0
10/75	Pennsylvania	1,222,295,925.00
4/75	Puerto Rico	88,700,000.00
2/75	Rhode Island	102,763,478.36*
2/74	Vermont	40,738,664.73*
2/75	Virgin Islands	10,405,000.00
2/73	Washington	0
Total Outstanding Loans - Dec. 31, 1979		$ 3,826,956,547.34

*Indicates States making repayments through reduced employer credits